

# West Virginia Business & Economic REVIEW

Volume 11 • December 2005

West Virginia University College of Business and Economics

## West Virginia Retailers' Expectations for the 2005 Holiday Season

James R. Brown  
Kmart Chair in Marketing

Assisted by John Jacola  
Graduate Assistant

### CONTENTS

W.Va. Retailer Expectations for Holiday Sales .....	1
Industrial Mix according to GSP .....	5
Impact of Indep. Colleges and Univ. in W.Va. ....	8

### NOTE TO OUR READERS:

The West Virginia Business and Economic Review is published by the WVU Bureau of Business and Economic Research. Subscribers are notified by e-mail when a new issue is posted on the Bureau website.

We hope you find our format easy to access and read. Please let us know if you see ways to improve it. You can e-mail our editor at:  
[connie.banta@mail.wvu.edu](mailto:connie.banta@mail.wvu.edu)

Researchers in the WVU College of Business and Economics recently surveyed West Virginia retailers to assess their views on the state's retail climate for the holiday season. This telephone survey was conducted during the first three weeks of November 2005. The perceptions of 79 scientifically-selected local, regional, and national retailers doing business in West Virginia were measured. The regional and national retailers provided their opinions only with regard to their West Virginia operations.

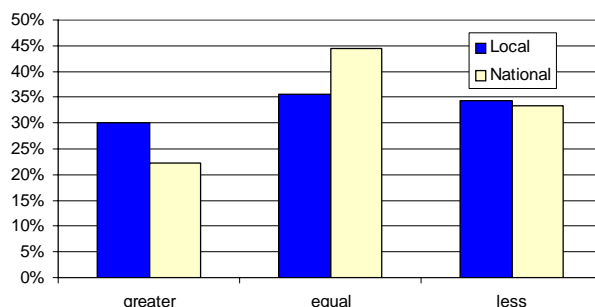
### *Outlook for Holiday Sales for 2005*

The national, regional and local retailers surveyed had roughly similar outlooks for 2005's holiday season. About 36% of the sample forecasted their 2005 holiday sales to be similar to those for 2004. In contrast, 29% felt that their sales this holiday season would be higher than last year, while 34% thought that their holiday sales would be lower this year ([See Figure 1, next page](#)).

Those who were optimistic about holiday sales said that they were already experiencing increased sales prior to the traditional Black Friday (Friday after Thanksgiving) start of the Christmas sales season. Retailers who foresaw no increase or decrease in their holiday sales over last year cited the nature of their business as the reason for this—their lines of trade (e.g., tires, hardware, automotive parts) typically do not experience the holiday sales surge.

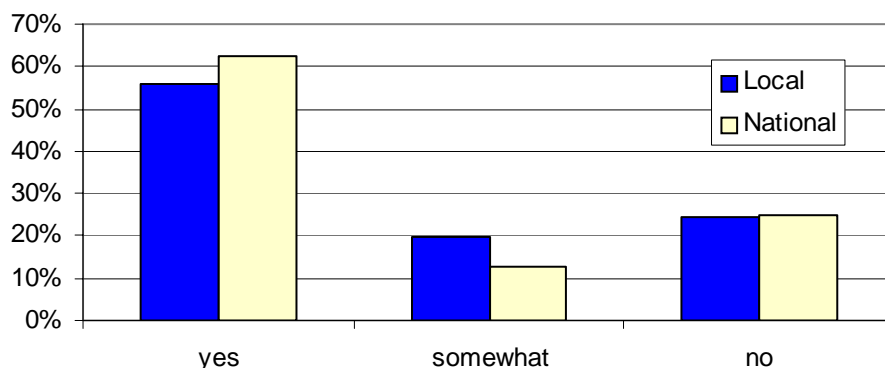
Disappointing pre-Thanksgiving sales trends drove the more pessimistic retailers' view of the holiday season. Some also cited the dramatic upswing in gasoline prices during the

**Figure 1**  
**Anticipated Holiday Sales**  
**2005 vs. 2004**



past several months. Within our sample, 57% indicated that gasoline price increases had a noticeable effect on their business, while another 19% said that they only had somewhat of an effect. The balance (24%) felt that the gasoline price increases had no effect on their business (See Figure 2).

**Figure 2**  
**Impact of Gasoline Prices**



### *Other Holiday Forecasts*

A recent *Wall Street Journal* report on national retail sales in November 2005 is consistent with our study's findings.<sup>1</sup> It reports that national chains experienced mixed retail sales during the month. Some firms realized nice gains in same store sales during November (for example, Wal-Mart: 4.3%; Costco: 6.0%; Limited: 5.0%; Charming Shoppes: 9.0%; Ann Taylor: 12.9%; and Abercrombie & Fitch: 23.0%). Gains for other chains were more modest (for example, Target: 2.6%; J.C. Penney: 3.6%; Nordstrom 2.8%; Saks: 0.1%; Neiman Marcus 2.8%; Kohl's: 0.1%; American Eagle: 1.7%). Other stores experienced declines in same store sales during the period (for example, Dollar General: -0.2%; Federated Department Stores: -3.4%; TJX: -1.0%; Gap: -4.0%).

As noted above, retailers often use November sales relative to the previous November's sales revenues to forecast holiday sales. The mixed holiday sales outlook for retailers in West Virginia seem to mirror the outlook for retailers nationally—some are forecasting increases over last year; others are expecting sales to be the same, and still

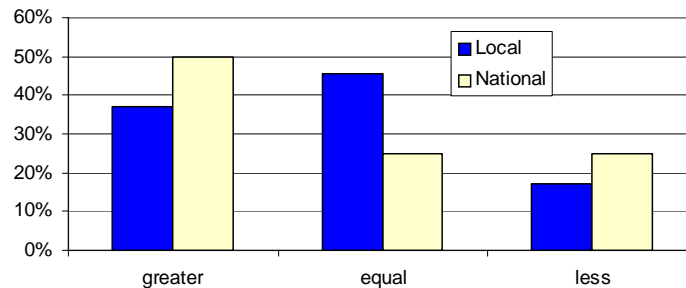
<sup>1</sup>Kang, Stephanie and Gina Chon, "Consumer Spending Turns Cautious," *The Wall Street Journal*, Vol. CCXLVI, No. 119 (December 2, 2005), pp. A3, A5.

other retailers are predicting that their sales will decrease this holiday season as compared to last year.

### *Outlook for First Quarter 2006 and Beyond*

The sample of retailers also predicted their sales for the next quarter. The national/regional and local retailers in the sample were roughly equal in their assessments of First Quarter sales in 2006. Within our sample, 38% forecasted their sales to be better in the First Quarter of 2006 than they were in the First Quarter of 2005. Roughly 44% of the retailers surveyed predicted that First Quarter 2006 would be no better or no worse than First Quarter 2005. The remaining 18% felt that their First Quarter 2006 sales would be less than 2005's (See Figure 3).

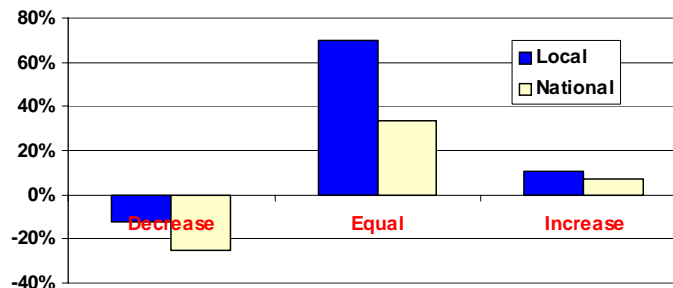
**Figure 3**  
**Anticipated First Quarter Sales**  
**2006 vs. 2005**



On average, local retailers forecasted fewer sales losses and slightly better sales gains for the next quarter than did national/regional retailers (See Figure 4).

When what they expected general retail business conditions to be six months from now, 65% percent of the sample (63% local; 88% national/regional) foresaw good business conditions, while only 14% (15% local; 0% national/regional) saw business conditions worsening six months from now. Overall, the short range outlook for retailing in West Virginia looks promising.

**Figure 4**  
**Expected Change in West Virginia Sales**  
**First Quarter 2006**

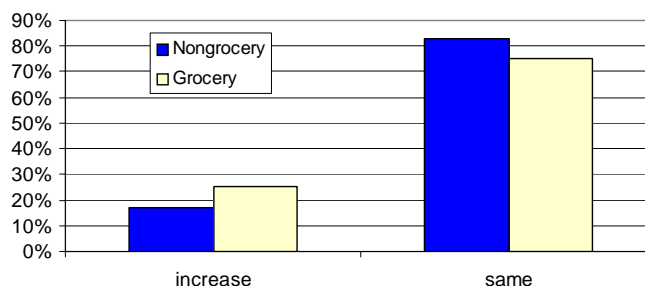


### *Retailers' Views on the Food Sales Tax Rollback*

In addition to questions about the prospects for retail sales in West Virginia, sample retailers answered questions about their opinions on the recent 1% rollback on the sales tax for food. No respondent said that their sales would be adversely affected by the sales tax rollback. Most (82%) indicated that their sales would likely remain the same, while

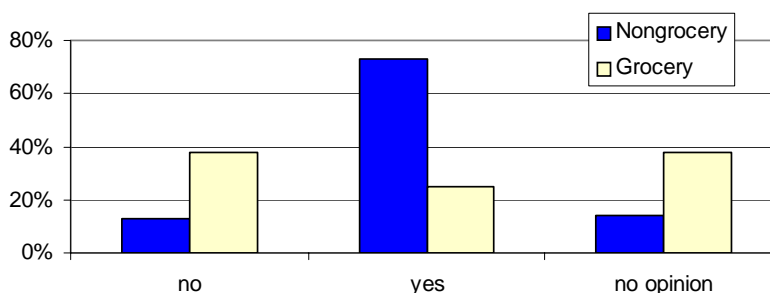
the balance (18%) stated that they thought that their sales would likely increase (See Figure 5). Note that these percentages are roughly equal for both grocery and nongrocery retailers.

**Figure 5**  
**Likely Impact on Sales of 1% Rollback of Sales Tax on Food**



When asked whether the West Virginia legislature should completely eliminate the sales tax on food, 15% of the retailers felt that it should not, 68% believe that it should, and 17% have no strong opinion on this issue (see Figure 6). Interestingly, nongrocery retailers are more predisposed to a complete rollback of the sales tax on food (73%) than are grocers (25%). However, grocery retailers seem to be conflicted on this issue, with 38% saying that this tax should not be completely dropped and an equal percentage who offered no opinion on this issue. Clearly, the retail community is divided on this topic, and some grocers have not yet made up their minds about it. Once the sales tax rollback is actually implemented, the “fence sitters” will likely move one way or the other.

**Figure 6**  
**Should the Legislature Completely Eliminate the Sales Tax on Food?**



### *Summary*

West Virginia retailers, as well as their national/regional counterparts, have mixed expectations for the 2005 holiday season. Some predict higher sales revenue this year than for the same period in 2004. Others expect to do worse than last year, while still others think that they will do as well as they did in 2004. West Virginia retailers predict that their First Quarter 2006 sales will be at least as strong as the First Quarter of 2005, and they anticipate that general retail conditions will continue to be good for the next six months.

The 1% rollback in the food sales tax was expected to have little effect on retailer sales, and most nongrocery retailers thought that the West Virginia legislature should completely eliminate the sales tax on food. Grocery retailers were considerably less sanguine about this. Finally, the majority of our sample of retailers believed that the increase in gasoline prices had a noticeable effect on their business.

# *The Industrial Mix of the Nation, Region, and State According to the Gross State Product*

**by Amy Higginbotham, Economist**

For 2004, the service-providing sector dominated the national, regional, and state economies. According to estimates for inflation-adjusted Gross State Product (GSP)<sup>1</sup> released by the U.S. Bureau of Economic Analysis, private service-providing industries outpaced private goods-producing industries<sup>2</sup> by 4% nationally, 4.2% in the Southeast region, and 3.2% in West Virginia. With this dramatic rise in output from the service sector, one might wonder what this means and if this is part of a trend.

## *Is the U.S. Industrial Mix Changing?*

The industrial mix of the U.S. economy has changed over the years due to high GSP growth in the service-providing sector. In 2004, the private service-providing industries grew the fastest, but these industries have held higher growth rates for the nation since at least 1997. In fact, from 1997 to 2004, private service-providing industries outpaced goods-producing industries by 26% in real terms. This growth has been spurred by the dramatic increase in output by the finance and insurance industry, which experienced an inflation-adjusted growth rate of 56% since 1997. This difference in growth can also be attributed to declines in some of the goods-producing industries. Mining and nondurable manufacturing, in particular, hampered the growth in the goods sector by experiencing negative or very low output during this period.

## *Is the Southeast Region's Industrial Mix Changing?*

Like the U.S., the Southeast region's<sup>3</sup> economy has been becoming more oriented toward the service providing sector since 1997 due in part to impressive levels of GSP growth in the finance and insurance industry. However, this region not only experienced higher GSP growth in the service sector but also experienced negative real growth in the goods sector. This sector's decrease from 1997 to 2004 can be attributed to output declines in the mining industry and in nondurable goods manufacturing, which combined for a decrease of 15.9% (in real terms).

---

<sup>1</sup> GSP is defined by the U.S. Bureau of Economic Analysis as the dollar value of all goods and services produced by labor and property in a state. It is reported on an industry basis and each industry's GSP is known as its value added. GSP is reported in real and nominal terms. Real GSP is an inflation-adjusted measure of each state's gross product that is based on the national prices for the goods and services produced within that state. Nominal GSP is each state's gross product expressed in current or 2004 dollars.

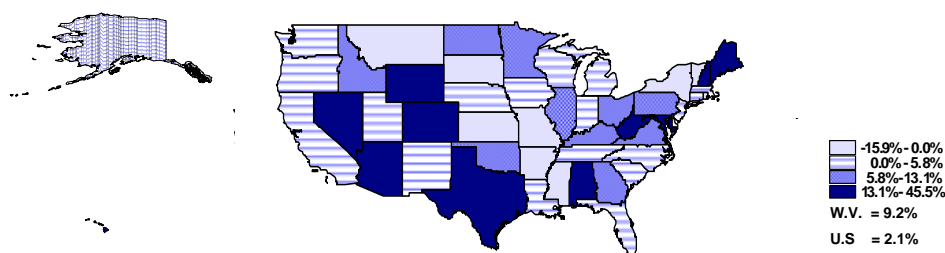
<sup>2</sup> Private service-providing industries, as defined by the Bureau of Labor Statistics, include: utilities; wholesale and retail trade; transportation; information; finance and insurance; real estate; professional and technical services; management of companies and enterprises; administrative and waste services; educational services; health care and social assistance; arts, entertainment, and recreation; accommodation and food services; and other services, except government

<sup>3</sup> The states that make up the Southeast region include the following: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

## What about West Virginia's Industrial Mix?

The state's industrial mix has also evolved since 1997. The high growth of inflation-adjusted GSP in service-providing industries occurred not only in 2004 but also during the seven years from 1997-2004. During this time, service-providing industries outperformed goods-producing industries. This growth included substantial gains in output by industries in the arts, entertainment, and recreation sector. This sector, consisting of jobs pertaining to performing arts, spectator sports, as well as museums, historical sites, and amusement, gambling, and recreation industries, grew by 84.6%, with an average annual real growth rate of 9.2%. The rate for this sector ranked first among all fifty states and the District of Columbia for the seven-year period as well as for 2004 (see Figure 1).

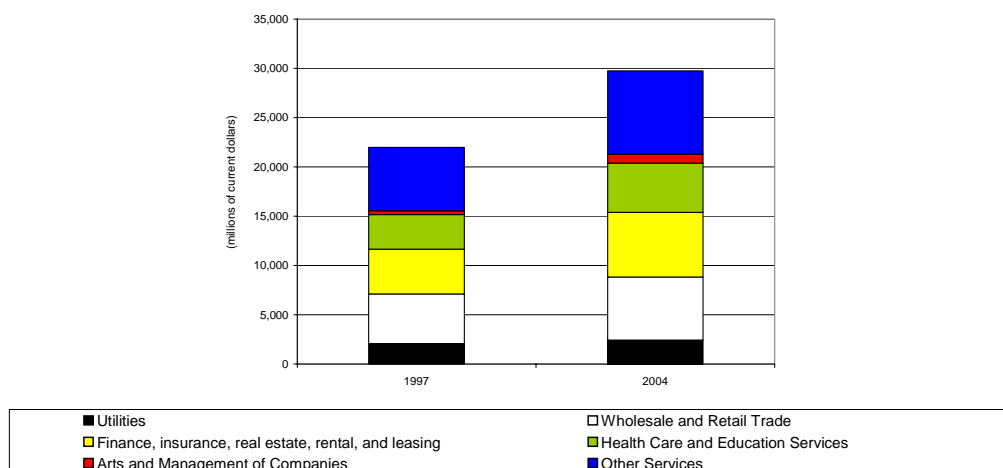
**Figure 1**  
**Arts, Entertainment and Recreation**  
**Average Annual Real GSP Growth Rate**  
**1997 - 2004**



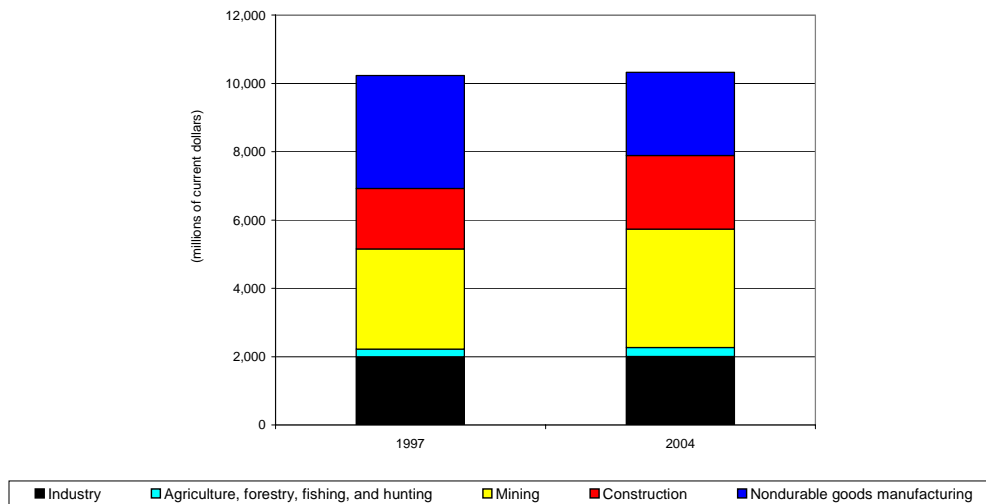
Another industry experiencing exceptional growth in the service sector in 2004 as well as from 1997 to 2004 is the management of companies and enterprises sector. This group's real average annual growth rate was just over 5%, ranking it ninth highest in the nation, while its 2004 rate was approximately 13%, the second highest rate in the nation.

Although both the arts, entertainment, and recreation sector and the management of companies and enterprises sector experienced very high growth in real and nominal GSP in the West Virginia economy, they only accounted for 2.99% of the service-providing sector's nominal growth in GSP in 2004. The growth in the service-providing sector was most notably fueled by the wholesale and retail trade industries and the finance, insurance, and real estate industries, which in 2004 accounted for 21.5% and 22.1% of the sector's nominal growth in GSP. (Figure 2)

**Figure 2**  
**Nominal GSP Breakdown of West Virginia's Service-Providing Industries**



**Figure 3**  
**Nominal GSP Breakdown of West Virginia's Goods-Producing Industries**



What industries helped or hampered the growth in the good-producing sector? From 1997 to 2004, West Virginia's construction and manufacturing industries experienced negative real growth of approximately 19% each. These declines were offset by increased growth in the other private goods-producing industries allowing for positive growth overall. One of the goods-producing industries that experienced positive growth during this time was the mining industry. Mining increased real output by 33.5% from 1997 to 2004 and accounted for 41.6% of the goods-producing sector's growth in nominal GSP in 2004. **(Figure 3)**

Overall, from 1997 to 2004, West Virginia shifted towards a more service sector-oriented economy. In fact, according to the U.S. Bureau of Labor Statistics, the number of workers in West Virginia's goods sector has fallen 11.4% to 121,300, while the service sector has increased the number of employees by 7.7%.

The shift away from the goods sector is also evident in the breakdown of West Virginia's nominal GSP. From 1997 to 2004, the goods-producing sector's share of the nominal GSP fell from 21.2% to 16.8%, while the service-providing sector's share increased by 3.46% during this period.

### ***What to Expect in the Future?***

Will private service-providing industries continue to outpace private goods-producing industries? By looking at past trends, one might conclude that the service sector will continue to increase its share of the GSP for the nation, the region, and for the state. However, the expansion of the construction industry coupled with lower consumer spending due to higher gasoline, heating oil, and natural gas prices during 2005 must also be taken into consideration. For West Virginia in particular, employment increases in the coal mining, transportation, and warehousing industries in 2005 will also have an effect on the industrial mix of its GSP.

# *The Economic Impact of Independent Colleges and Universities in West Virginia*

**by Dr. Tom S. Witt and Christiadi**

The Bureau has recently released a report documenting the economic impact of West Virginia Independent Colleges & Universities, Inc. during the fiscal year 2004. The member institutions include Alderson-Broaddus College, Appalachian Bible College, Bethany College, David & Elkins College, Mountain State University, Ohio Valley University, University of Charleston, West Virginia Wesleyan College and Wheeling Jesuit University.

These institutions collectively enrolled over 11,500 students during the academic year 2004-2005, with nearly 60% of the students from West Virginia. More than 90% of the students received some form of financial aid. Academic programs ranged from two-year programs through baccalaureate and masters programs.

Using audited financial information from fiscal year 2004 (July 1, 2003-June 30, 2004) provided by each member institution and the IMPLAN® economic impact modeling system,<sup>1</sup> economic impact models were estimated for West Virginia and for nine regional economies within the state. These models were used to quantify the economic contributions these institutions collectively made to the state and to their respective regional economies. Among the economic impacts estimated are employment, employee compensation, output, value added, business volume and assorted state taxes.

The detailed report is available on the Bureau website: [www.bber.wvu.edu](http://www.bber.wvu.edu).

---

<sup>1</sup> The IMPLAN® economic impact modeling system is a product of Minnesota IMPLAN Group, Inc. ([www.implan.com](http://www.implan.com)).



# West Virginia and United States Economic Indicators

	04 Q3	04 Q4	05 Q1	05 Q2	05 Q3	2002	2003	2004
<b>United States</b>								
Real GDP (Bil. \$2000 Chain-Wtd.)	10,808.9	10,897.1	10,999.3	11,089.2	11,193.2	10,048.9	10,320.6	10,755.7
% Change	4.0	3.3	3.8	3.3	3.8	1.6	2.7	4.2
Consumer Price Index (CPI-U) (1982-84=100)*	189.6	190.7	191.9	194.5	196.9	179.9	184.0	188.9
% Change	1.4	2.4	2.5	5.5	5.0	1.6	2.3	2.7
Total Nonfarm Payroll Employment (Mil.)	131.7	132.3	132.8	133.4	134.0	130.3	130.0	131.5
% Change	1.2	1.7	1.6	1.9	1.6	-1.1	-0.3	1.1
Unemployment Rate (%)	5.4	5.4	5.3	5.1	5.0	5.8	6.0	5.5
Initial Claims for Unemployment Ins. (Thous.)	340	335	326	328	339	404	402	343
Industrial Production (1997=100)	105.1	106.2	107.2	107.6	107.9	100.0	100.6	104.7
% Change	2.6	4.2	3.8	1.6	0.9	0.1	0.6	4.1
Capacity Utilization Rate	78.8	79.4	79.9	79.9	79.8	75.2	75.7	78.6
Housing Starts (Mil.)	1.974	1.973	2.083	2.044	2.092	1.710	1.854	1.950
Retail & Food Service Sales (Bil.\$)	3,912	4,007	4,063	4,169	4,239	3,474	3,624	3,888
% Change	7.1	10.0	5.8	10.8	6.9	2.5	4.3	7.3
Federal Funds Rate*	1.43	1.95	2.47	2.94	3.46	1.67	1.13	1.35
Bank Prime Loan Rate*	4.42	4.94	5.44	5.91	6.43	4.68	4.12	4.34
30-Year Conventional Mortgage Rate*	5.89	5.73	5.76	5.72	5.76	6.54	5.82	5.84
<b>West Virginia</b>								
Total Nonfarm Payroll Employment (Thous.)**	736.9	738.0	741.3	744.6	742.9	733.1	726.3	736.2
% Change	0.1	0.6	1.8	1.8	-0.9	-0.3	-0.9	1.4
Natural Resources and Mining	24.1	24.5	24.6	24.9	25.4	23.1	21.7	23.8
% Change	5.7	6.2	2.2	4.4	7.7	-1.7	-6.1	9.6
Construction	34.5	34.4	36.5	37.8	37.4	33.4	32.5	34.6
% Change	-6.0	-0.8	26.7	14.2	-3.5	-4.0	-2.7	6.4
Manufacturing	62.8	62.7	62.7	63.0	62.1	68.7	64.7	63.0
% Change	-2.9	-0.6	0.0	2.1	-5.8	-4.8	-5.8	-2.6
Trade, Transportation, and Utilities	137.1	137.5	138.1	138.1	138.1	136.9	135.4	137.0
% Change	1.6	1.2	1.8	-0.1	-0.1	-2.2	-1.1	1.2
Information	12.0	11.9	12.1	12.0	12.2	13.3	12.8	11.9
% Change	1.4	-1.1	4.6	-0.9	7.2	-5.0	-3.8	-6.8
Financial Activities	30.5	30.4	30.0	30.0	29.8	31.2	31.0	30.5
% Change	-2.9	-1.3	-5.3	-0.1	-2.4	2.0	-0.6	-1.6
Professional and Business Services	58.2	57.9	58.0	58.3	59.2	56.7	56.4	58.0
% Change	3.5	-1.8	0.9	1.6	6.3	-1.0	-0.5	2.9
Educational and Health Services	111.3	112.8	112.3	111.6	111.5	107.2	108.1	111.1
% Change	2.3	5.8	-2.0	-2.5	-0.1	3.9	0.8	2.8
Leisure and Hospitality	67.6	67.8	68.8	69.4	68.4	64.4	66.2	67.9
% Change	-2.1	1.0	6.0	3.7	-5.8	2.4	2.8	2.5
Other Services***	55.3	55.2	54.8	55.8	55.5	55.3	55.2	55.3
% Change	-4.8	-1.2	-2.8	7.8	-1.9	0.2	-0.2	0.3
Government	143.5	142.9	143.4	143.8	143.2	142.8	142.3	143.1
% Change	1.1	-1.8	1.5	1.0	-1.5	1.3	-0.4	0.5
Unemployment Rate (%)	5.4	5.0	5.0	4.8	5.6	6.1	6.1	5.3
Initial Claims for Unemployment Ins. (Thous.)	1,316	1,448	1,256	1,442	1,374	1,824	1,709	1,414
Avg. Wkly Hrs Natural Resources and Mining**	45.1	45.7	44.2	45.5	46.7	43.2	43.6	44.5
Avg Wkly Hrs Manufacturing**	40.8	40.6	40.6	40.3	40.7	40.5	40.4	40.8
Avg Hrlly Earnings Nat'l Rsrcs and Mining (\$)**	18.07	18.27	18.37	18.57	18.89	17.20	17.56	18.07
% Change	1.2	4.4	2.3	4.4	7.0	1.2	2.1	3.0
Average Hourly Earnings Manufacturing (\$)**	16.17	16.36	16.43	16.48	16.57	15.29	15.74	16.14
% Change	3.1	4.7	1.7	1.3	2.2	3.6	2.9	2.6
Real Personal Income (Mil. 2000\$)	43,089	43,790	44,057	44,395	n/a	41,790	41,972	43,065
% Change	1.8	6.7	2.5	3.1	n/a	1.8	0.4	2.6
Wage and Salary, Nonfarm Civilian	20,439	20,679	20,799	20,950	n/a	19,840	19,846	20,348
% Change	3.7	4.8	2.4	2.9	n/a	0.7	0.0	2.5
Other Labor	6,133	6,203	6,366	6,441	n/a	5,525	5,757	6,099
% Change	3.4	4.7	10.9	4.8	n/a	6.6	4.2	5.9
Proprietors	2,706	2,748	2,800	2,829	n/a	2,484	2,563	2,732
% Change	-8.3	6.3	7.8	4.3	n/a	-9.3	3.2	6.6
Dividends, Interest, and Rent	5,461	5,790	5,504	5,517	n/a	6,194	5,710	5,612
% Change	-8.2	26.4	-18.3	0.9	n/a	-5.4	-7.8	-1.7
Transfer Payments	11,640	11,652	11,924	12,014	n/a	10,907	11,300	11,553
% Change	4.3	0.4	9.7	3.1	n/a	8.0	3.6	2.2
Non-Building Const. Contracts (\$ mil., NSA AR)^	451	677	135	1,003	n/a	847	509	681
Non-Res. Const. Contracts (\$ mil., NSA AR)^	738	324	363	661	n/a	460	482	527
Residential Const. Contracts (\$ mil. AR)^	846	938	894	1,080	n/a	562	727	832
Total Const. Contracts (\$mil)^	2,035	1,939	1,392	2,743	n/a	1,869	1,718	2,040
% Change	-50	-17	-73	1,408	n/a	386	-29	99
W.Va. Export-Weighted U.S. Dollar (1980=100)*	134.0	127.2	125.9	128.0	128.3	156.9	141.9	132.5
% Change	-6.8	-18.7	-4.0	6.8	0.9	0.3	-9.5	-6.6

Notes: West Virginia average weekly hours, average hourly earnings, and initial claims for unemployment insurance data are obtained from the West Virginia Bureau of Employment Programs and seasonally adjusted using seasonal factors derived by the Bureau of Business and Economic Research. West Virginia employment and the state unemployment rate are seasonally adjusted by the West Virginia Bureau of Employment Programs. Personal income data are seasonally adjusted by the Bureau of Economic Analysis, U.S. Dept. of Commerce. Components may not sum to totals due to rounding. All percent changes are measured from the previous period and expressed as annual rates. Value of total housing permits data are from the Bureau of the Census, U.S. Dept. of Commerce. n/a Not Available. \* Not Seasonally Adjusted. \*\*Data source now based upon the North American Industry Classification System (NAICS). Previously, this data was based upon the Standard Industrial Classification (SIC) Code. \*\*\*Consists of the following sub-sectors: Repair and Maintenance, Personal and Laundry Services, and Religious, Grantmaking, Civic, Professional, and Similar Organizations. ^Data from F.W. Dodge.

*The West Virginia Business & Economic Review* is published by the Bureau of Business and Economic Research, College of Business and Economics, West Virginia University,  
P.O. Box 6025, Morgantown, WV 26506-6025

PHONE: (304)293-7831 • FAX: (304)293-7061

EMAIL: [connie.banta@mail.wvu.edu](mailto:connie.banta@mail.wvu.edu)

WEBSITE: [www.bber.wvu.edu](http://www.bber.wvu.edu)

**Milan Puskar Dean** ..... R. Stephen Sears

Associate Dean for Research and Outreach and

BBER Director ..... Tom Witt

Editor ..... Connie Banta

***BBER Research Staff***

**Christian Brooks**, undergraduate research assistant

**Randy Childs**, economist

**George Hammond**, research associate professor

**Amy Higginbotham**, economist

**Patrick Mann**, research associate and professor of economics

**Scott Murdoch**, graduate research assistant

**Kwasi Osei-Yeboah**, graduate research assistant

**Justin Ross**, graduate research assistant

**Kevin Speaker**, undergraduate research assistant

**Mehmet S. Tosun**, research assistant professor

**Claudia Williamson**, graduate research assistant

**Pavel A. Yakovlev**, graduate research assistant

---

**West Virginia University** is governed by the WVU Board of Advisors and the West Virginia Higher Education Policy Commission.

West Virginia University is an Equal Opportunity/Affirmative Action Institution.

©2005 *West Virginia University Research Corporation*